

Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
actuary_st@leg.wa.gov

Public Safety Subgroup

November 15, 2005

8:30 AM - 9:30 AM

House Hearing Room C
Olympia

AGENDA

- (1) **Approval of Minutes**
- (2) **Review of Bill Draft** - Laura Harper, Senior Research Analyst, Legal
- (3) **Report from Chief's Office** - Captain Jeffrey Devere
- (4) **Stakeholder Input**
- (5) **Subgroup Recommendation**

Subgroup Membership: (*voting members*) Representative Steve Conway (chair), Representative Barbara Bailey, Senator Craig Pridemore, Vacant Senate position, Sandra Matheson, Glenn Olson, Bob Keller, Lois Clement; (*non-voting members*) Rick Jensen, Paul Neal, Captain Jeffrey Devere, Mr. Bob Maki.

Stakeholder groups are encouraged to appoint an individual representative from their organization as a non-voting member if interested.

Persons with disabilities needing auxiliary aids or services for purposes of attending or participating in Select Committee on Pension Policy meetings should call (360) 753-9144. TDD 1-800-635-9993

***Elaine M. Banks**
TRS Retirees

Representative Barbara Bailey

Lois Clement
PERS Retirees

Representative Steve Conway

Representative Larry Crouse

***Senator Karen Fraser,**
Vice Chair

***Representative Bill Fromhold,**
Chair

***Leland A. Goeke**
TRS and SERS Employers

***Robert Keller**
PERS Actives

***Sandra J. Matheson,** Director
Department of Retirement Systems

Corky Mattingly
PERS Employers

Doug Miller
PERS Employers

Victor Moore, Director
Office of Financial Management

Senator Joyce Mulliken

Glenn Olson
PERS Employers

Senator Craig Pridemore

Diane Rae
TRS Actives

J. Pat Thompson
PERS Actives

David Westberg
SERS Actives

*** Executive Committee**

(360) 786-6140
Fax: (360) 586-8135
TDD: 1-800-635-9993

Select Committee on Pension Policy

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PUBLIC SAFETY SUBGROUP COMMITTEE

DRAFT MINUTES

October 18, 2005

The Public Safety Subgroup Committee met in House Hearing Room C, Olympia, Washington on October 18, 2005.

Committee members attending:

Voting Members:

Representative Conway, Chair	Glenn Olson
Senator Pridemore	Bob Keller
Sandra Matheson	

Non Voting Members:

Captain Jeffrey Devere, Chief's Office
Rick Jensen, WSPTA
Bob Maki, Chief's Office
Paul Neal, WSPTA Counsel

Senator Pridemore, called the meeting to order at 8:30 AM.
Representative Conway, Chair, resumed the meeting at 8:35 AM.

(1) WSP Funding Policy History

Laura Harper, Senior Research Analyst - legal, presented the report "History of WSPRS Funding Policy." Discussion followed.

The following non voting members spoke and answered questions:

Rick Nensen

Paul Neal

Captain Jeffrey Devere

Bob Maki

(2) Next Steps

Staff was instructed to draft bill language and schedule for the November 15, 2005 Public Safety Subgroup meeting.

(3) The next meeting will be November 15, 2005 from 8:30 AM - 9:30 AM.

The meeting adjourned at 9:26 AM.

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Bill Summary

Washington State Patrol Funding

(November 7, 2005)

The draft bill for the 2006 legislative session relating to contribution rates in the Washington State Patrol Retirement System contains the following provisions:

- Strikes the existing rate-setting formula containing a fifty-fifty member to employer split and a 2 percent member minimum.
- Sets contribution rates for the 2006-2007 fiscal year at 3.01 percent for members and 6.01 percent for employers.
- For the next rate-setting cycle (i.e. the 2007-2009 biennium), amends the funding policy to create a new cost allocation formula by which members pay one-third with a 7 percent cap and employers pay the balance.
- Establishes a minimum total contribution rate beginning July 1, 2009, that is equal to 70 percent of the system's normal cost as calculated under the entry age normal cost method.
- Provides for an effective date of July 1, 2006.

1 AN ACT Relating to contribution rates in the Washington state
2 patrol retirement system; amending RCW 41.45.0631; and providing an
3 effective date.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

5 **Sec. 1.** RCW 41.45.0631 and 2001 c 329 s 11 are each amended to
6 read as follows:

7 (1) Beginning July 1, ((2001))2006, the required contribution rate
8 for members of the Washington state patrol retirement system shall be
9 ((two percent or equal to the employer rate adopted under RCW 41.45.060
10 and 41.45.070 for the Washington state patrol retirement system,
11 whichever is greater.))3.01 percent and the required basic employer
12 contribution rate shall be 6.01 percent.

13 (2) Beginning July 1, 2007, the required Washington state patrol
14 retirement system contribution rates shall be adopted under RCW
15 41.45.060 and 41.45.070, subject to the following funding policies:

16 (a) The member contribution rate shall be one-third of the total
17 Washington state patrol retirement system contribution rate or seven
18 percent, whichever is less, and the employer contribution rate shall be
19 the balance of the total contribution rate. This allocation formula

1 shall be applied only after the total Washington state patrol
2 contribution rate has been determined, and such determination shall
3 include the application of any minimum total contribution rate that may
4 be in effect for the Washington state patrol retirement system.

5 (b) Beginning July 1, 2009, a minimum total contribution rate is
6 established for the Washington state patrol retirement system. The
7 total Washington State patrol retirement system contribution rate as
8 recommended by the pension funding council and adopted by the
9 legislature may exceed, but shall not drop below the established
10 minimum total contribution rate. The minimum total contribution rate
11 shall equal the total contribution rate required to fund seventy
12 percent (70%) of the Washington state patrol retirement system's normal
13 cost as calculated under the entry age normal cost method. Upon
14 completion of each biennial actuarial valuation, the state actuary
15 shall review the appropriateness of this minimum total contribution
16 rate and recommend to the legislature any adjustments as may be needed.

17 NEW SECTION. **Sec. 2.** This act takes effect July 1, 2006.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	35	11/8/05	WSPRS Funding Bill

SUMMARY OF BILL:

This bill impacts the Washington State Patrol (WSP) Retirement System by changing the contribution rate setting formula. This bill sets rates for the 2007 fiscal year at 3.01 percent for members and 6.01 percent for the employer. Beginning July 1, 2007, the member contribution rate is one-third of the total cost of the system or 7 percent, whichever is less, and the employer would then be responsible for the balance. The total contribution rate for the system is determined before the cost-sharing formula is applied. As part of the total contribution rate determination, a minimum total contribution rate is established beginning July 1, 2009. This floor is equal to 70 percent of the Washington State Patrol Retirement System's normal cost as calculated under the entry age normal cost method.

Effective Date: July 1, 2006

CURRENT SITUATION:

Currently, the member contribution rate in WSP is set at half the cost of the system or 2 percent, whichever is greater. The employer is then responsible for the remaining costs of the system. Because of the funded status of the system, member contribution rates were 2 percent in 2001-2005 and there were no employer contributions during that period. Beginning July 1, 2005, both the employer and employee contribution rates were increased to 4.51 percent of pay.

MEMBERS IMPACTED:

All 1,057 active members of this system would be affected by this bill.

For members impacted by this bill, there would be no increase in benefits, but there would be a decrease in member contributions.

ASSUMPTIONS:

The one-third member, two-thirds employer split would apply for all years beginning July 1, 2006. The member contribution rate is rounded to two decimal places after multiplying the total rate by one-third. This rate is then compared to the 7.00 percent maximum to get the final member rate. The state contribution rate would then be the difference between the total rate and the member rate. The minimum total contribution rate of 70 percent of the entry age normal cost rate is established beginning July 1, 2009. The previously described member and employer rate allocation formula is applied only after the calculation of the minimum total contribution rate. Here are some illustrative examples:

- The current total rate of 9.02 percent would be split, with 3.01 percent for the member and 6.01 percent for the employer, effective July 1, 2006.
- A total rate of 12 percent would result in a member contribution of 4.00 percent and the state contribution rate would be 8.00 percent.
- A total rate of 25 percent would result in a rounded member contribution of 8.33 percent, which would be limited to 7.00 percent. The state contribution rate would be 18.00 percent in this case.
- If the entry age normal cost rate were 20 percent, the minimum total contribution rate would be 14 percent, and the member and employer allocations would be 4.67 percent and 9.33 percent respectively.
- With a total rate of 12 percent under the aggregate method and a floor of 70 percent of a 20 percent entry age normal cost rate, or 14 percent, the floor would apply. The member contribution would be 4.67 percent and the state contribution rate would be 9.33 percent
- With a total rate of 25 percent under the aggregate method and a floor of 70 percent of a 20 percent entry age normal cost rate, or 14 percent, the floor would not apply. The member contribution would be 7.00 percent and the state contribution rate would be 18.00 percent.
- With a total rate of 20 percent under the aggregate method and a floor of 70 percent of a 32 percent entry age normal cost rate, or 22.4 percent, the floor would apply before applying the one-third, two-thirds split and the 7 percent member minimum rate. The member contribution would be 7.00 percent and the state contribution rate would be 15.40 percent.
- The projected contribution rates for the current six-year period under the current and proposed formulas are shown in the following table:

Year	Current Formula		Proposed Formula	
	50.00% Member	50.00% Employer	33.33% Member	66.67% Employer
2005-2006	4.51%	4.51%	4.51%	4.51%
2006-2007	4.51%	4.51%	3.01%	6.01%
2007-2008	6.54%	6.54%	4.36%	8.72%
2008-2009	6.54%	6.54%	4.36%	8.72%
2009-2010	7.73%	7.73%	5.15%	10.31%
2010-2011	7.73%	7.73%	5.15%	10.31%

We did not include any cost impact related to the establishment of a floor contribution rate. A floor, or minimum, contribution rate would not be expected to impact rates in the long run. The short term increase in rates in years in which the floor applied would be offset by lower rates in future years. A floor could actually result in a long-term savings to the extent that investment earnings from the extra contributions due to the floor are used to reduce future contribution requirements. We considered but did not include any cost impact for any issues related to market timing and when the extra contributions from the floor are invested.

The determination that a floor would result in no additional cost and possibly a savings is based on the assumption that any reserve or cushion that is built up from a floor is used to reduce future contribution requirements and not used to provide for benefit increases. If the extra contributions from a floor are used for benefit increases, then there would be a cost to having a floor.

FISCAL IMPACT:

Description:

This proposal would not change the liabilities of the current plan. On average, it would shift one-sixth of the total contributions from members to employers. It would also change the cost allocation of any future benefit improvements so that the members would only be paying for one-third instead of one-half and the employer would be responsible for two-thirds of the cost instead of one-half.

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the system and the required actuarial contribution rate as shown below:

<i>(Dollars in Millions)</i>	System: Washington State Patrol		
	Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to All Current Members)	\$739	\$0	\$739
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	\$0	\$0	\$0
Unfunded Liability (PBO) (The Value of the Total Commitment to All Current Members Attributable to Past Service)	(\$100)	\$0	(\$100)
Increase in Contribution Rates: (Effective 7/1/2006)			
Employee	(1.50%)		
Employer State	1.50%		

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

Costs (in Millions):	<u>WSP</u>
2006-2007	
State:	
General Fund	\$0.0
Non-General Fund	<u>1.1</u>
Total State:	\$1.1
Local Government	\$0.0
Total Employer	\$1.1
Total Employee	(\$1.1)

Costs (in Millions):	<u>WSP</u>
2007-2009	
State:	
General Fund	\$0.2
Non-General Fund	<u>3.5</u>
Total State:	\$3.7
Local Government	\$0.0
Total Employer	\$3.7
Total Employee	(\$3.7)
2006-2031	
State:	
General Fund	\$3.3
Non-General Fund	<u>111.4</u>
Total State:	\$114.7
Local Government	\$0.0
Total Employer	\$114.7
Total Employee	(\$114.7)

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill, as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets, and assumptions as those used in preparing the September 30, 2004, actuarial valuation report of the Washington State Patrol Retirement System.
2. As with the costs developed in the actuarial valuation, the emerging costs of the system will vary from those presented in the valuation report of this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.
3. Additional assumptions used to evaluate the cost impact of the bill that were not used or disclosed in the actuarial valuation report include the following:
4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
5. This draft fiscal note is intended for use only during the 2006 Legislative Session.
6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.
7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Projected Benefits: Pension benefit amounts that are expected to be paid in the future, taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces:

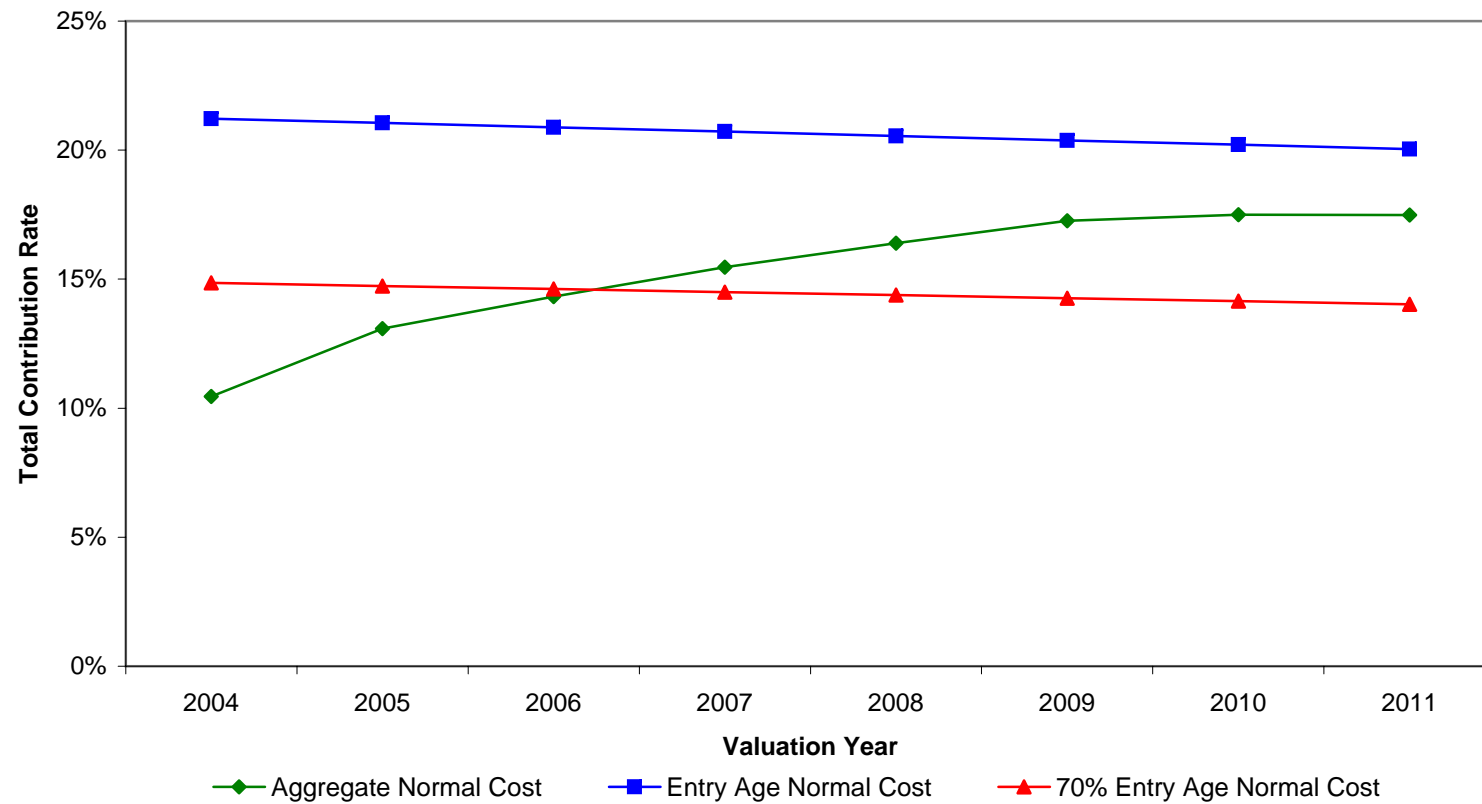
- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2, and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Select Committee on Pension Policy

Washington State Patrol Contribution Rate Projections*



*The rates have been determined using preliminary investment data through 9/30/04 and assume an annual 8.0 percent rate of return thereafter.



RECEIVED

NOV 10 2005

STATE OF WASHINGTON

WASHINGTON STATE PATROL

General Administration Building, PO Box 42600 • Olympia, Washington 98504-2600 • (360) 753-6540

Office of
The State Actuary

November 9, 2005

The Honorable Bill Fromhold, Chair
Select Committee on Pension Policy
PO Box 40914
Olympia WA 98504-0914

Dear Representative Fromhold:

During the Public Safety Subgroup meeting on October 18, 2005, the funding policy history of the Washington State Patrol Retirement System (WSPRS) was discussed. HB 1317, introduced during the 2005 session and being reconsidered for 2006, proposed to change the contribution rate for members of the WSPRS to seven percent or one-third of the rate adopted under RCW 41.45.060 and 41.45.070 for the WSPRS, whichever is less.

In the course of this meeting, Representative Conway asked the position of the Washington State Patrol (WSP) regarding HB 1317. He was advised the Patrol was unable to provide a position at that time due to concerns regarding the impact this proposal would have to the State Patrol Highway Account, which is expected to have a negative fund balance by July 2007. Representative Conway and the subgroup were advised that the WSP would need to discuss the matter with Governor Gregoire's office before committing to a position.

On October 21, 2005, Captain Jeff DeVere met with representatives from Governor Gregoire's office regarding HB 1317. Discussed were the impacts of increased employer contribution to the 2005 -2007 (\$1.1 million) and the 2007 -2009 (\$3.7 million) budgets. Attached is the Fund Balance Detail sheet indicating the challenge facing the department regarding this proposal.

The WSP will be unable to provide a definitive position on HB 1317 until the Governor's budget has been finalized in December 2005.

If you have any questions or concerns regarding this matter, please contact me at 360-753-5299.

Sincerely,

CHIEF JOHN R. BATISTE

Captain Jeff DeVere
Government and Media Relations

JKD:mp

cc: Chief John R. Batiste, Washington State Patrol
Marty Brown, Legislative Director, Office of the Governor
Victor Moore, Director, Office of Financial Management
Tom Pillow, President, Washington State Patrol Troopers' Association



Fund Balance Detail

DOT0509 (R) - 2005-07

Washington State Patrol - Request Level

081 - State Patrol Highway Account

(\$ in Thousands)

	<u>03-05</u>	<u>05-07</u>
Beginning Fund Balance (Phase III)	12,817	21,368
Revenue Data (0509)		
Total Federal Revenue	6,957	10,544
Total Local Revenue	1,465	2,177
I-776 Impact (refund from prior biennium)	(1,491)	-
Treasury Deposit Earnings (80%)	478	600
ACCESS user fees	1,600	1,600
Transfer - Motor Vehicle Account	(4,000)	1,406
Transfer - DRS	(290)	-
Court DUI cost reimbursement	1,026	1,026
Motor Veh Lics Permits Fees (Sept 2005)	252,037	261,688
Terminal Safety Inspection Fees From UTC	2,500	2,500
Breath Test Fees	1,750	1,750
Other Revenue	1,000	682
Minimum Fund Balance	-	(3,500)
Fund Balance Adjustments	-	898
Revenue Total	263,032	281,371
Expenditure Data (DOT0509)		
225 010 Field Operations 010 (WSP)	181,187	213,243
225 030 Support Services 030 (WSP)	71,089	84,756
225 90C WSP Capital	2,205	2,801
2006 Supplemental Request		10,696
SCPP Pension Proposal		1,100
Projected Expenditure Total	254,481	312,596
Projected Ending Fund Balance	\$ 21,368	\$ (9,857)



WASHINGTON STATE PATROL TROOPERS ASSOCIATION

200 UNION AVE. SE STE. 200, OLYMPIA, WASHINGTON 98501 (360) 704-7530 FAX (360) 704-7527

May 26, 2005

RECEIVED

JUN 7 - 2005

Senator Karen Fraser, Chair
Select Committee on Pension Policy
417 JAC
PO Box 40422
Olympia, WA 98504-0422

Office of
The State Actuary

Re: Troopers Association Request for SCPP Agenda Items

Dear Senator Fraser:

As the incoming president of the Troopers Association, I wanted to first thank you for your help during the last Legislative session. We are particularly pleased with the passage of Second Substitute House Bill 1188, our collective bargaining bill. As always, there is still more work to do. I am writing to ask for your help in allowing us to bring the following issues to the Select Committee on Pension Policy during the 2005 interim:

- Trooper Contributions. We were grateful for the SCPP's support for our contribution rate bill, HB 1317/SB 5341. That bill would have returned the Troopers to a 1/3 - 2/3 contribution ratio with a 7% cap on employee contributions. Unfortunately, neither bill made it out of the house of origin. We would like to continue to work the bill with the Committee during the interim.
- Increase Mandatory Retirement to Age 65. The Troopers have supported this bill in the past and would like to continue to keep it alive during the interim.
- Disabled Troopers Converting to Retirement. As you know, disabled troopers are not retired. Instead, they remain on the payroll at half-salary and are paid out of the Patrol's operating budget. A recent decision of the Chelan County Superior Court, In Re Truman, considered the survivor pension calculation for a Trooper who died while on disability status. While the Troopers association agrees with the decision, it does point out some confusion about the treatment of disabled Troopers under the retirement system. We would like to discuss the possibility of having disabled Troopers continue to contribute to the retirement system and convert to retiree status at age 60.
- Distinctions between WSPRS and PERS. Discussions surrounding the Troopers contribution bill brought to light some ambiguity about the policy differences between WSPRS and PERS 2. We would like an opportunity to discuss those issues with the Committee for background when considering WSPRS issues.

Finally, we are asking you to convene the public safety subcommittee authorized under RCW 41.04.278, to facilitate consideration of these issues.

Thank you for your consideration of this request. Please feel free to either call me at (360) 704-7530 or Rick Jensen at (360) 951-9531 with any questions or for discussion.

Sincerely,

A handwritten signature in cursive script, appearing to read "Tom Pillow".

Tom Pillow, President
Washington State Patrol Troopers Association

cc: Matt Smith
Rick Jensen
Davor Gjurassic
Paul Neal

MEMORANDUM

To: SCPP, Public Safety Subgroup
From: Paul Neal, WSPTA *PN*
Date: October 17, 2005
Subject: Differences in Pension Coverage Between State Troopers and other State Employees

The pension coverage the state provides to Troopers is very different from the coverage provided to all other State Employees. The two main features of this difference are:

- A specific pension system for Troopers only with, in most cases, better benefits than PERS; and
- Social Security benefits provided for all state employees except Troopers.

The unique nature of the Trooper's pension situation is an important policy consideration. As Governor Locke did when he vetoed a portion of the WSPRS plan 2 bill:

Sections 1 and 2 of the bill would have created a new "Plan II" that would have greatly reduced non-duty disability benefits for newly hired Washington State Patrol officers. While I understand the legislature's desire for uniformity among public pension systems, I think these changes require further consideration.

While similar benefit provisions exist for other state employees who are members of plan II retirement systems, those employees are also eligible for disability coverage through the social security system. State Patrol officers are not covered by social security, and the new provisions proposed in this bill would have left them and their families vulnerable. All State Patrol officers should be assured of benefits that are at least equal to those of other state employees.

Governor's veto message, ch. 329, laws of 2001.

Before applying Plan 2 policy to WSPRS, it is important to consider the policy implications of the differences between the two-pronged pension plan the State provides all employees except Troopers and the single plan it provides Troopers.